

DOCKET NO. 2001-75-W - ORDER NO. 2001-747

IN RE: Application of Dowd Water System, Inc. for) ORDER APPROVING
Approval of an Increase in Water Rates for) RATES AND CHARGES
Stephenson's Lake Subdivision.)

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Dowd Water System, Inc. (Dowd or the Company) for approval of an increase in water rates for Stephenson's Lake Subdivision, located in Lexington County, South Carolina. The Company has 25 customers, and is presently operating under rates set by this Commission in Docket No. 82-57-W by Order No. 82-325.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. A Petition to Intervene was filed by Forrest Derrick. No Protests were received.

Accordingly, a hearing was held on August 1, 2001 at 10:30 AM in the offices of the Commission. As per State law, a panel, consisting of Commissioners Carruth, Mitchell, and Moseley heard the case. Commissioner Carruth acted as Chairman. Dowd

was represented by David Knight, Esquire. Dowd presented the testimony of Sue Dowd and D. Joe Maready. Forrest Derrick testified on behalf of himself as the Intervenor. The Commission Staff was represented by F. David Butler, General Counsel. The Staff presented the testimony of Steve W. Gunter and Charles A. Creech.

Sue Dowd testified on behalf of the Company. Ms. Dowd proposed a rate increase from \$15 to \$51 per month for water service. She also proposed the institution of a \$90 disconnect fee and a \$90 reconnect fee. Ms. Dowd noted that the \$51 per month charge is a flat fee for unlimited water usage. She states that the two \$90 charges consist of \$75 each for contractor fees and \$15 each for expense fees for her travel and notices.

Mrs. Dowd states that she has 25 customers on the system, with three wells and two water tanks. One tank is 17,000 gallons and the smaller one is about 500 gallons in capacity. There are 1 inch distribution lines. In June, Mrs. Dowd testified that she had to replace two pumps, with estimated costs of \$4,000, and that she has to use her personal funds for these types of expenses, since the utility is operating at a loss for the year.

Mrs. Dowd also has been told that she needs to paint the 17,000 gallon tank, which bears a minimum of \$7,000. She has also contracted with a licensed engineer to inspect the system.

D. Joe Maready, an accountant, also testified for Dowd. Maready proposed accounting adjustments in the areas of testing fees, operator costs, chemicals, repairs, taxes, and rate case expenses. Maready stated on cross-examination that he had no problem with Staff witness Gunter's adjustment to operator costs. The Company's resultant operating margin under Maready's calculation was 32.39%.

The Intervenor, Forrest Derrick also testified, as did Staff witnesses Steve W. Gunter and Charles A. Creech.

Gunter proposed four accounting and proforma adjustments and one adjustment for the proposed increase. Gunter noted that both the Staff and the Company propose to adjust testing fees for the effect of switching the responsibility of testing to an outside contractor, effective April 1, 2001. Staff's adjustment allocated this cost to Stephenson's Lake Subdivision, based on the number of customers, while the Company allocated the cost evenly between the Stephenson's Lake and Emerald Shores Subdivisions, the two subdivisions covered under the contract. Gunter was of the opinion that an allocation based on number of customers is more representative of the actual cost to be incurred by each subdivision. The total annual contract amount was \$13,236 of which 60.98% was allocated to Stephenson's Lake and 39.02% to Emerald Shores, based on 25 customers in the Stephenson's Lake Subdivision and 16 customers in the Emerald Shores Subdivision. Staff then eliminated the per book amounts for testing fees in the amount of \$500, chemical expense amounting to \$186 and operator fees in the amount of \$1,800.

Both Staff and Company propose to amortize actual rate case expenses over a three year period and to allocate one-third each to the Emerald Shores and Isle of Pines Subdivisions, which have establishment cases pending before this Commission. Staff allocated the cost evenly, based on the assumption that the time and expense to prepare each case would be approximately the same.

The Company and the Staff also propose to true-up the gross receipts tax. The adjustments differ, due to the use of a factor that Staff believes is more up-to-date.

Finally, as to the last adjustment, both Staff and Company agree on the amount of the revenue increase, but differ on taxes, due to the use of what Staff witness Gunter states is a more up-to-date factor for gross receipts taxes by the Staff of 1.121%, while the Company used a factor of 0.51%.

FINDINGS OF FACT

1. Dowd Water Systems, Inc. is a water utility under the jurisdiction of the Commission, serving the Stephenson's Lake subdivision in Lexington County, South Carolina. (Testimony of Dowd.)

2. Dowd is seeking a rate increase in its flat rate water charges from \$15.00 per month to \$51.00. Dowd is also seeking establishment of disconnect and reconnect fees of \$90 and \$90 respectively. (Testimony of Dowd.)

3. The system presently has 25 customers. (Testimony of Dowd.)

4. The Commission Staff's adjustments should be adopted in toto for the reasons stated in the testimony and exhibits of Staff witness Gunter. The Company did not dispute the Staff's adjustments.

5. The testimony presented justifies the granting of an operating margin of 23.96%, as calculated by the Staff.

CONCLUSIONS OF LAW

1. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 2000).

2. The Commission concludes that each of the Staff's adjustments proposed by the Commission Staff is appropriate and each is hereby adopted by the Commission, based on the reasoning as stated above.

3. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid to construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

4. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water, the quality of service, and the effect of the proposed rates upon the consumers.

5. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a 23.96% operating margin on its regulated water operations in Stephenson's Lake subdivision. In order to have a reasonable opportunity to earn a 23.96% operating margin, the Company will need to produce \$15,300 in total annual operating revenues.

TABLE A

OPERATING MARGIN

Operating Revenues	\$15,300
Operating Expenses	<u>11,634</u>
Net Income for Return	<u>3,666</u>
Operating Margin	<u>23.96%</u>

6. In order to earn the operating revenues necessary to earn an operating margin of 23.96%, the Company must earn revenues of \$15,300. In order to earn these revenues, we hold that the rate of \$51.00 per month flat rate should be granted.

7. We also approve the proposed disconnect and reconnect fees of \$90 each.

8. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

9. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

10. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water utilities as adopted by this Commission.

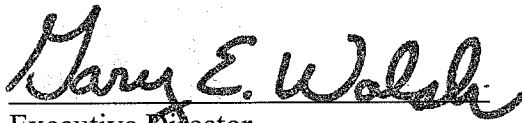
11. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)

APPENDIX A

DOWD WATER SYSTEMS, INC.

Sue Dowd

77 Dowd Road

Prosperity, SC 29127

(803)345-2285

STEPHENSON LAKES SUBDIVISION

Docket No. 2001-75-W
Order No. 2001-747
Date: August 15, 2001

Monthly Flat Rate	\$51.00
Disconnect Fee	\$90.00 *
Reconnect Fee	\$90.00 *

* \$75.00 contract cost, plus \$15.00 mailings and travel by owner